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#### APPLICATION OF

#### THE POTOMAC EDISON COMPANY

**CASE NO. PUE980055** 

To revise its cogeneration tariff pursuant to PURPA Section 210

# REPORT OF DEBORAH V. ELLENBERG, CHIEF HEARING EXAMINER

### October 14, 1998

On January 16, 1998, The Potomac Edison Company ("Potomac Edison" or "the Company") d/b/a Allegheny Power filed an application, written testimony and exhibits in support of its request to revise the Company's Schedule CO-G, establishing payments for power purchased from cogenerators and small power producers with a design capacity of 100 kW or less. The Company proposed to eliminate capacity payments and to revise monthly customer connection charges. Potomac Edison did not propose to change the energy rates or the established fuel mixes filed with the Commission in December of 1997. There are no qualifying facilities in the Virginia jurisdiction to which this schedule would apply.

The Commission issued an order establishing this proceeding on February 5, 1998. Therein, the Commission docketed the application, scheduled a public hearing for July 23, 1998, and established a procedural schedule for the case.

The public hearing was convened as scheduled. Philip J. Bray, Esquire, appeared as counsel for Potomac Edison. Allison Held, Esquire, appeared as counsel for the Commission's Staff. No intervenors or protestants participated in the case. A transcript of the hearing is filed with this Report.

# **SUMMARY OF THE RECORD**

The Company is a Virginia public service corporation providing electric service to approximately 80,000 customers located in fourteen northwestern Virginia counties. (Application at 1). In accordance with the Commission's Final Order in the Company's last case, Case No. PUE960004, the Company was required to continue submission of its cogeneration and small power production rates biennially. In accordance with that requirement the Company submitted its 1998 filing. The Company offered the testimony of Mr. Ronald L. Smith, an analyst in the Regulation and Rates Department for Allegheny Power Service Corporation, in support of its proposed rates and charges.

The Company does not propose to make changes to the presently authorized energy rates or established fuel mixes. In its last case (Case No. PUE960004), revised energy rates were based on the fuel mix for the current year (1998) and the proposed fuel mixes for the next two years (1999 and 2000) which were filed in December of 1997. The Company thus based its 1998 energy payment calculations on the following avoided energy mix:

# AVOIDED ENERGY MIXES 1998

		On-Peak Displaced			Off-Peak Displaced	
	<b>GWH</b>	Fuel Mix	\$/KWH	<u>GWH</u>	Fuel Mix	\$/KWH
Coal	239.1	51.0%	0.0168	393.9	96.8%	0.0136
Oil	0.8	0.2%	0.0627	2.4	0.6%	0.0627
Natural Gas	0.0	0.0%		0.0	0.0%	
Comb. Turbine	0.0	0.0%		0.0	0.0%	
Comb. Cycle	0.0	0.0%		0.0	0.0%	
Pumped Storage	0.0	0.0%		0.0	0.0%	0.0095
Purchase Power/Sale	229.4	48.9%	0.0129	10.4	2.6%	
Pumping	0.0	0.0%		0.0	0.0%	
Total	469.3	100.0%	0.0149	406.7	100.0%	0.0138
Total with Losses			0.01657			0.01535

Potomac Edison proposes its 1998 on-peak energy rates to remain at \$.01657 per kWh; its off-peak energy rate to remain at \$.01535 per kWh; and its average energy rates applicable to non-time differentiated energy purchases to remain at \$.01600 per kWh.

The Company also proposes to eliminate capacity payments and revise the monthly customer connection charges in its Schedule CO-G. The Company proposed to eliminate the payment for capacity because, in its opinion, there are no real avoidable capacity costs since service to qualifying facilities is limited to 100 kW or less. "Generation in such small amounts cannot be effectively dispatched and has little if any real effect on the deferral of capacity additions." (Ex. RLS-1, at 3).

The Company proposes the following changes to its monthly connection charges:

Meter Type	<b>Proposed</b>	Current
Basic Watthour Meter	\$13.51	\$12.44
Time-of-Use Watthour Meter	\$13.89	\$12.81
Recording Time-of-Use Watthour Meter	\$41.44	\$40.31

(Exs. RLS-1, Att. Sch. CO-G, at 1-2; TEL-4, at 10). The monthly customer connection charges have increased due to a slight increase in fixed charges and increases in the cost of processing vouchers and preparing checks.

Staff offered the testimony of Diane W. Jenkins, a principal research analyst in the Commission's Division of Economic and Finance, and Thomas E. Lamm, assistant director in the

Division of Energy Regulation. Staff concluded that the Company's forecasts of energy demand, sales, fuel prices, and avoided energy costs were reasonable. Staff also accepted Potomac Edison's energy mixes as reasonable; however, Staff witness Jenkins added that future interim updates should reflect the energy price changes resulting from market price fluctuations. She offered testimony that energy mixes should remain constant and change only with the Company's biennial filing and then only with appropriate support. (Ex. DWJ-3, at 7). Further, Ms. Jenkins recommended that avoided energy mixes for five years should be included with each cogeneration filing if the planning horizon is shortened to five years. (Id.).

In recognition of the uncertainty in the electric utility industry, Staff witness Lamm recommends use of a five-year planning horizon (1998-2002) for consideration of avoided costs in the instant case; the provision of a supplemental capacity payment of 5 mills per kWh for firm capacity contracts in each of years 2001 and 2002 subject to the restrictions specified in Schedule CO-G; and approval of Potomac Edison's proposed connection charges. (Ex. TEL-4, at 10-11). Mr. Lamm generally based his recommendations on the Company's intention to rely on short-term market purchases for new capacity requirements. Mr. Lamm, however, based his capacity payment on the costs of a combustion turbine. Staff also recommends that the Commission direct the Company to advise Staff in advance should Allegheny Power decide to enter into a purchase power contract exceeding five years or to build generation to allow Staff to evaluate the appropriateness of Schedule CO-G in light of any such change. (Id.).

On July 9, 1998, the Company filed the rebuttal testimony of Mr. Smith. The Company agreed to include a capacity payment to reflect any costs not included in the energy payment; however, Mr. Smith proposed the use of an alternative method to the one set forth by Mr. Lamm. Mr. Smith calculated his capacity payment by averaging the costs of the Company's non-affiliated purchases over the most recent three-year period for which figures were available, correcting for losses and subtracting the energy payment included in Rate Schedule CO-G. (Ex. RLS-2, at 2).

# **DISCUSSION**

Staff and the Company thus agreed on the Schedule CO-G rates, and differed only on the method of calculating the capacity rate. Mr. Lamm's supplemental capacity payment was based on Staff's rough estimate of the annual levelized fixed carrying charge of a combustion turbine. (Ex. TEL-4, at 8).

The Company asserts that its most recent integrated resource plan includes no capacity additions and relies totally on power purchased from the market to meet its reserve margin. Therefore, in the Company's opinion, basing the supplemental payment on the cost of a combustion turbine that will not be built is not appropriate. (Ex. RLS-2, at 3). The payment calculated by the Company is approximately 4 mills per kWh. The Company, however, agreed to accept Staff's 5 mills per kWh capacity payment. (Id.).

The Company's method appears to better reflect its present intention to rely on purchases. However, regardless of the method used to calculate avoided capacity costs both Staff and the Company ultimately supported the inclusion of capacity payments of 5 mills per kWh for firm

capacity contracts in each of the years 2001 and 2002 to supplement energy payments. I find that recommendation to be reasonable. Moreover, as a practical matter that recommendation would have virtually no impact on the Company or ratepayers due to the 100 kW threshold limitation for the scheduled applicability. Mr. Lamm testified that the maximum annual capacity payment a qualifying facility ("QF") could receive in 2001 and 2002 would be approximately \$4,380. (Ex. TEL-4, at 9).

I also concur that the Company's proposed energy rates and connection charges are reasonable. The avoided energy mix and fuel prices are reasonable. The changes to connection charges are based on the costs of metering and the general administration of purchases from QFs. Those costs include operation and maintenance expenses, materials and supplies, administrative and general overheard, customer accounting, check processing, and computer processing costs. (Id. at 10). The Company provided adequate documentation of the proposed changes to connection charges. (Ex. RLS-1, Statement 4). The record supports those changes.

## **FINDINGS AND RECOMMENDATIONS**

Based on the evidence received in this case, I find the Company's proposed Schedule CO-G as modified in its rebuttal testimony is just and reasonable. Accordingly, **I RECOMMEND** the Commission enter an order that approves the Company's Schedule CO-G as modified to include a supplemental capacity payment of 5 mills per kWh and as attached hereto effective for purchases on and after the date of the final order herein.

## **COMMENTS**

The parties are advised that any comments (Section 12.1-31 of the Code of Virginia and Commission Rule 5:16(e)) to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen (15) copies, within fifteen (15) days from the date hereof. The mailing address to which any such filing must be sent is Document Control Center, P. O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been mailed or delivered to all other counsel of record and to any party not represented by counsel.